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Assistant Director for Research and Reports

7 October 1958

Deputy Chief, Economic Research Area, ORR

Possible Additional Reductions in Authorized Strength of
the Economic Research Area, ORR

1. General Considerations

Since 1 July 1956 the activities of the ERA have continued to expand, in large part in response to sharply increased demand from priority consumers. This has taken place during a period of diminishing authorized strength. To meet new responsibilities assigned during the period it has been necessary on several occasions to abandon or cut back on certain activities and to reallocate personnel resources, culminating in the summer of 1958 in an extensive reorganization involving three of our four divisions. This recent very considerable effort to economize in the utilization of our manpower has effectively eliminated such flexibility as we might otherwise have had in meeting further reductions in strength. To meet a 2% cut in authorized strength would involve the elimination of eight positions from our total authorized strength of 411. A cut of 5% would involve the loss of 20 positions. Reduction in either of these amounts would necessitate a shift away from work which has been considered of a priority nature up to the present time; of course the damage from loss of the latter figure would be the greater.

2. Impact of Possible Cuts in Personnel Strength

a. Two per cent reduction:

<u>Activity</u>	<u>Comment</u>
Research on population in the European Satellites (1 position)	This would mean assignment of partial responsibility for this subject to the regional branch eliminating existing focus of basic research on satellite manpower problems.

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<u>Activity</u>	<u>Comment</u>
Research on Council for Economic Mutual Assistance (CEMA) (1 position)	This responsibility would have to be given some other analyst on a part-time basis, and in view of the increasing importance of CEMA as a Soviet dominated, coordinating mechanism would be regrettable.
Study of problems in the machinery building industry (1 position)	Since the major intelligence estimates are becoming increasingly problem-oriented the lack of full time attention by one person to these problems would possibly diminish the reliability of our estimates in this field.
Study of Soviet Bloc merchant ship construction	The merchant shipbuilding program of the Bloc has been expanding in support of the expanded commercial activities of these countries. Loss of one position would be felt in our diminished ability to meet OME support commitments.
Study of USSR Steel Industry (2 positions)	With fixed commitments for NIE and MIS production our capacity for coverage of current steel industry developments in a comprehensive way would be sharply affected. Support for the Air Targets Division would be curtailed and self-initiated basic research would probably be impossible.
Trade Control Support (2 persons)	Elimination of these positions would mean: less intelligence support to U.S. policymakers on export controls; and reduction of direct intelligence support on enforcement. This would

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<u>Activity</u>	<u>Comment</u>
Trade Control Support (2 persons) (con't)	probably necessitate informing the Battle Act Administrator of our reduced support possibilities and would bring us to an absolute minimum in support of trade control activity possible under existing regulations and legislation. This would reduce this branch to 8 professionals contrasted with a former strength of 60 some 3 or 4 years ago.
b. Five Per cent Reduction:	
Activity	Comment
Work on East German organization, Soviet slave labor and inter-Bloc migration (1 person)	Would result in diminished support capability for GMR and DD/P.
Work on growth and size of Soviet GNP and industry (1 person)	This section of GMR Branch would have to shrink to 5 people, and the loss of a position would be serious in that it would reduce our capacity for exploring new and experimental lines of research in this difficult field. It may be noted that parallel work on the U.S. economy is done by the Federal Reserve Board and by the National Income Division of the Department of Commerce, who together employ more than 100 people.
Shipbuilding Research (3 persons)	Here it is believed it would be necessary to eliminate the Shipbuilding Branch, reassigning some of its functions and positions with a net saving of 3 positions. This would be costly since nowhere else in the intelligence community is there being done an adequate job on Bloc shipbuilding and trade and such a cut-back would seriously damage the community's coverage in this field. The loss would have a

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<u>Activity</u>	<u>Comment</u>
Shipbuilding Research (3 persons) (con't)	direct impact on both the NIE and MIS programs. Furthermore the elimination of another military branch so soon after last summer's reorganization would certainly have an impact on the morale of analysts in the Aircraft Branch, possibly causing the more productive among them to seek other employment.
Non-Ferrous Minerals Research (1 person)	We would probably want to take the cut by discontinuing the coverage of certain of the large numbers of non-ferrous metals and minerals in the Soviet Union possibly including such important ones as diamonds or lead and zinc. With fewer people in a situation where the data problem is a very serious one it is likely that our research would suffer a reduction in reliability and we would be less able to respond to frequent requests in this area. Our support to the Air Targets Division of Air Force Intelligence and to the MIS program would suffer. Also, publication of basic self initiated research would become even more remote than at present.
Research on Soviet Petroleum Industry (1 Person)	Loss of a position here would be unfortunate particularly since we had been hoping as soon as possible to do research on the important and rapidly expanding USSR natural gas industry. This project would have to be deferred and basic research would suffer with consequences bearing directly

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<u>Activity</u>	<u>Comment</u>
Research on Soviet Petroleum Industry (1 person) (con't)	on MIS production and on our ability to deal with spot jobs.
Research on the European Satellites Chemicals Industry (1 person)	This might be accomplished by eliminating coverage of 1 or more countries. Taking one person from the Satellites component would really be an act of desperation. The USSR section could not be cut because of its heavy engagement in atomic energy and rocket fuels research. Our Chinese research problem has enormously expanded over the last year because of the need to follow a rapidly changing chemicals picture in Communist China. The Satellites section is also fully occupied and accepting the cut here appears simply to be the least of alternative evils.
Research on Chinese Foreign Trade (1 person)	Loss of an analyst on this field would be regrettable if it were found to be necessary since it would be in conflict with the current effort of the ERA to expand our research on the Chinese "lead forward" program.
Research in European Satellites Trade (1 person)	This cut would reduce the support we are now able to give to policymakers responsible for offsetting Soviet economic penetration of the Free World, a program in which the European Satellites are playing a major role.
Research on Bloc Communications (1 person)	Loss of a position in this aspect of the program would result in a stretch out of the program of basic studies in Communist Bloc communication

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<u>Activity</u>	<u>Comment</u>
Research on Bloc Communications (1 person) (con't)	facilities and capabilities. Similarly it appears that our support to the NIS program would suffer.
Publications Staff (1 person)	A by-product of a 5% cut across the board in the ERA presumably would be a reduction of the publications load and accordingly one of the positions in the Publications Staff conceivably could be dispensed with without undue penalty. To the extent that our reduction in strength were less than 5%, however, the loss of an editorial position could be expected to result in a slowing down of the editorial process with a resultant diminution of intelligence output.

3. New Activities Initiated in FY 1957

During fiscal year 1957 the following major changes took place in the activities of the Economic Research Area:

a. The Industrial Division assumed additional responsibilities for following the economic aspects of the Soviet guided missile and atomic energy programs. It also increased its coverage of the Bloc electronic industries, Bloc aircraft production, and Bloc naval shipbuilding. Research on Middle East arms trade with the Bloc was undertaken. NIS production and support of COCOM were intensified. Despite these new activities and the addition of the Military Economics Branch to this Division, its T/O was raised only from 91 to 94.

b. Services Division accepted responsibility for extensive research and coordination on Bloc economic activities in underdeveloped countries. The Suez and Middle East crises placed an increased support burden

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on the Transportation Branch. The Division also undertook activities in support of the IAC Standing Committee on Exchanges and the Joint Committee on Mobilization Planning for Foreign Economic Measures. These varied activities added responsibilities equivalent to more than ten analysts, while the Division's T/O was increased by only two professionals.

c. Materials Division's major increases in responsibility were to follow the costing of the Soviet atomic energy program, involving four full-time professionals and various other aspects of the atomic energy problem involving the equivalent of one full-time professional. Five slots were assigned from elsewhere in the Area to handle this additional work.

d. Analysis Division's responsibilities did not materially change during this period, although there was a marked increase in demand from the Office of National Estimates.

The increase in responsibilities in this period for the Area as a whole was undertaken in spite of an overall reduction in strength from 415 to 413.

4. New Activities Initiated 1 July 1957 to 30 September 1958

During this period, the following major activities were added to the responsibilities of the Economic Research Area:

a. Industrial Division underwent a major reorganization in order to give increased emphasis to research on all economic aspects of guided missiles and space intelligence. The number of analysts assigned to this work was increased from 7 to 27. Intelligence production on ground weapons and ammunition was eliminated as was coverage of many non-military industrial items. Responsibility for atomic energy economic intelligence was transferred to Materials Division. Increased demands were placed on the Division for intelligence support in the fields of aircraft production, submarine production, electronics, and various aspects of military economics. The net result of these changes was to increase the Division's responsibilities by an estimated 10 analyst years but to decrease the Division's T/O from 94 to 73.

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b. Services Division's responsibilities for research on Bloc penetration activities continued to increase, and two positions were added to this work. Contributions to the atomic energy and guided missile research programs by the construction, transportation and communication components amounted to more than three analyst-years. Support to the preparation and presentation of major briefings by senior officials and to the President's Committee on World Economic Practices amounted to one to two analyst-years. Intelligence support necessitated by the Middle East and Taiwan Straits situations required the full time services of one analyst in addition to the one assigned in FY '57. In spite of these increased responsibilities equivalent to seven or eight analyst-years, the Division's professional strength declined by twelve during this period.

c. Materials Division undertook additional responsibilities in various economic aspects of the atomic energy problem in the equivalent of $9\frac{1}{2}$ analyst-years. Other new responsibilities with their analyst-year equivalents were: air targets (2 $\frac{1}{2}$ analyst-years), rocket fuels (two analyst-years) and east-west exchanges (1-2 analyst years). Thus the new activities undertaken in this period absorbed 15-16 analysts although the actual professional strength of the Division increased only from 96 to 98.

d. Analysis Division assumed the responsibility for the study of economic organization and management in Bloc countries. Two additional slots were added for this work in the Europe and the Far East but the unit responsible for the Soviet Union absorbed the function with no additional slots.

Thus for the area as a whole the increase in responsibilities has resulted in an estimated increase in work load equivalent of 15-37 analysts while the %/O in fact declined from 413 to 411. The effect of these additional functions, taken on with a declining professional strength has been several fold. All Divisions have had to abandon or curtail new and experimental lines of research or to put several aspects of their coverage on a maintenance basis. The undertaking of self-initiated projects has had to be severely cut. The finished intelligence which is currently being produced to meet new demands and to maintain the program of R&D and R&E production is drawing heavily on basic research developed in the past, but it has not been possible to maintain similar basic research in support of future production.

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5. Look Forward: Needed New Activities

Over and above the new activities which have been requested or inaugurated during the past two years, there are a number of additional fields in which the trend of current developments argues strongly for the initiation of new effort. These include:

- a. Stepped up research on the rapidly developing Communist Chinese economy. The Chinese are pursuing ambitious "leap-forward" goals in chemicals, petroleum, iron and steel and agriculture; similar moves appear to be in the making in non-ferrous minerals, the engineering industries and transportation. These developments deserve the best research that we can give them. The picture is so confusing that we need to put every available analyst on the task of accumulation and analysis of often conflicting basic data as well as on an imaginative yet mature interpretation of developments and the prospects for the future. This will involve intensive research in the several key fields most centrally involved.
- b. The development of a good study on the Soviet energy balance, present and future, with particular emphasis on the changing roles of natural gas and petroleum relative to solid fuel.
- c. Acceptance of additional NIS responsibilities in the fields of transportation including civil aviation, electric power, electronics and telecommunications equipment and the automotive industries. These are now being done by various components of the Armed Forces and experience in reviewing these sections reveals that the responsible services do not have the capability to produce adequate contributions on these subjects. Coordination and revision of these contributions require a large amount of analysts time; transfer of these responsibilities to the ERA would result in a net saving to the U.S. intelligence community.
- d. Expansion of support to the East-West Exchange program will almost certainly be necessary. The Area has provided extensive written support for the program. Demands for additional support of this kind are increasing, accompanied by a need for analysts to accompany and participate in some of the delegations.

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c. Further augmentation of our existing effort on coverage
of the expanding Communist Bloc aid and trade offensive
appears essential. As the area of activity broadens and
the variety of the content of the penetration program ex-
pands, full coverage and analysis is being increasingly
demanded by the U.S. community and by policymakers. We
had anticipated expanding our work in this field by the
addition of two more analysts.



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